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MONTHLY REVIEW

AN INDEPENDENT SOCIALIST MAGAZINE

DANGERS OF DEMOCRACY?

The Editors

VOL. 42

THE EXHAUSTION OF DEVELOPMENTAL SOCIALISM: LESSONS FROM CHINA

Cliff DuRand

POVERTY CRISIS IN THE THIRD WORLD

Paul Burkett

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Changing Wealth of the U.S. Ruling Class

James Petras and Christian Bay

REVIEW OF THE MONTH: Dangers of Democracy?	1
THE EXHAUSTION OF DEVELOPMENTAL SOCIALISM: LESSONS FROM CHINA by Cliff DuRand	8
POVERTY CRISIS IN THE THIRD WORLD: THE CONTRADICTIONS OF WORLD BANK POLICY by Paul Burkett	20
THE CHANGING WEALTH OF THE U.S. RULING CLASS by James Petras and Christian Davenport	33
The Editors' Comment	37
MEXICO'S POLITICAL EARTHQUAKE by James D. Cockcroft	39
CORRESPONDENCE: A Successful Conference in Havana by Philip Eden, Cliff DuRand, Patricia Mills, Bertell Ollman, and Frank Thompson	51
BOOKS: A Campaign That Failed by Bill Fletcher, Jr.	56
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	Leo Huberman (1903-1968)

NOTES FROM THE EDITORS

The Nobel Memorial Prize in Economic Science should not be confused with the traditional Nobel prizes established under the will of Alfred Nobel (1833-1896), Swedish chemist and inventor of dynamite, awarded annually since 1901 for achievements in physics, chemistry, physiology, medicine, literature, and the promotion of peace. The economics prize is a post-Second World War accretion (dictionary definition: increase by external addition) financed by the Swedish central bank. How the bank acquired the right to use the Nobel name is not clear; perhaps anyone so inclined with enough money can add a new Nobel prize in some hitherto neglected field. Be that as it may, the ideological bias of the source of the economics prize has in recent years become increasingly clear from the identity of its recipients. In the earlier postwar years a few distinguished social democratic theorists (Frisch, Myrdal, Tinbergen) were awarded the prize, but more recently the pendulum has swung increasingly in the opposite direction, and no critic of capitalism has since been so honored. This is obviously not because no suitable candidates could have been found; Joan Robinson was one of the half dozen or so most important economic theorists of the last half century. She was not, however, awarded the prize; and it would be too far-fetched to suggest that her sex was the deciding, not

(Continued on inside back cover)

(Continued from inside front cover)

to say the only, reason. Now, with the announcement of the prize award for 1990 made on October 16th, the swing away from critical thought has taken a new and somewhat surprising turn. Both of MR's editors were subjected to an economics training and have followed the major debates and discussions that have preoccupied the profession with reasonable diligence for 50 years or more. Yet neither of us had ever heard of the three professors (Harry M. Markowitz of Baruch College of the City University of New York, William F. Sharpe of Stanford University, and Merton H. Miller of the University of Chicago) who will share the 1990 prize. The reason, clearly, is that their work falls outside the boundaries of what has historically and traditionally been thought to constitute the subject matter of economics. This is not the place to rehash the old problem of how to define economics; suffice it to say that practitioners (and textbook writers) have generally concerned themselves with trying to understand how economic systems work and with what consequences for human beings whether considered as individuals or as identifiable groups or communities. These are decidedly not the concerns that have motivated the prize-winning efforts of Messrs. Markowitz, Sharpe, and Miller. According to the *New York Times* story announcing the prize (October 17), their "pioneering work provided new tools for weighing the risks and rewards of different investments and for valuing corporate stocks and bonds.... Collectively, their theories are widely applied today. They influence the investment decisions of stockbrokers, bankers, mutual fund managers, government agencies and millions of individuals." And *Business Week* (October 29) adds the information that they are "heroes to a generation of money managers and corporate financiers." Not belonging to any of the groups specially benefited by these theories, we are in no position to pass judgment on their merits. But readers of MR who are aware of the enormous increase in the relative importance of speculative finance in recent years – both in the U.S. and the global economies – will probably not be surprised to learn that catering to the needs of the speculators has now become one of the loftiest goals of "economic science."

We record with sorrow the deaths of two long-time and valued friends and supporters of Monthly Review: (1) Kathleen Gough Aberle died in West Vancouver, Canada, of cancer on September 8th at age 65. Born, brought up, and educated (Cambridge) in England, she migrated to the United States in the 1950s and taught anthropology at several U.S. universities. Her active involvement in the movement against the war in Vietnam led to her moving to Canada in the late 1960s and remaining deeply committed to the Vietnamese people's struggle for liberation. A creative scholar and an unswerving radical feminist and socialist, she will be greatly missed by her many students and friends here and abroad. (2) Philip Eden (1913-1990) died suddenly of a heart attack at his home in Berkeley on October 21. Formerly assistant research director for the International Longshoremen's and Warehousemen's Union, Phil attended our International Conference on the Future of Socialism, and seemed in good health and spirits, and had plans for future projects. His sudden death was, therefore, all the more shocking.

(Continued on page 60)

DANGERS OF DEMOCRACY

An unusually frank article by a leading figure in the Soviet Union about the political obstacles to *perestroika* appeared during the summer in *The New York Review of Books* (August 16, 1990). The article reflects an ongoing search for a firm class basis on which the newly emerging rulers can rely to support the social transformation now under way. It also reveals a line of thinking that leads to a politics of repression, calling for a governmental structure capable of restraining strikes and preventing popular struggles from getting out of hand. The author is Gavril Popov, the recently elected mayor of Moscow and editor of the journal *Issues of Economics*. The article's title is the same as the one above, except that Popov's title has no question mark after it. According to Popov, too much democracy seriously threatens the reconstruction being attempted in Eastern Europe:

In my opinion, the forms of democracy being established in [Eastern European countries and the Soviet Union] are exceptionally contradictory and in a very short time they will lead to serious internal conflict. That conflict has already started in Poland. It can be observed in Romania, and it is beginning in our country, too. What is happening apparently does not depend on the national characteristics of the particular countries involved, but on more fundamental processes.

I see the main problem in the relationship between, on the one hand, populism and, on the other, the tasks that must be carried out if the economy and the society are to be transformed. Clearly, we could not have overthrown the powerful totalitarian system without the active participation of millions of ordinary people. But now we must create a society with a

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variety of different forms of ownership, including private property; and this will be a society of economic inequality. There will be contradictions between the policies leading to denationalization, privatization, and inequality on the one hand and, on the other, the populist character of the forces that were set in motion in order to achieve these aims. The masses long for fairness and economic equality. And the further the process of transformation goes, the more acute and the more glaring will be the gap between those aspirations and economic realities.

The dilemma Popov describes is not unknown to history. To succeed revolutions need the enthusiastic support, participation, and often great sacrifice of the masses. Although those who join to make revolution have a common aim in overthrowing the existing order, the participating social groups may have quite different ideas about the nature of the postrevolutionary society to be established. Indeed, the expectations of sectors of the temporary revolutionary alliance may be antagonistic, not just different. The new rulers then have to find ways to assure their supremacy and keep other classes from disrupting the new elite's agenda.

This is precisely the problem that disturbs Popov. Not surprisingly, one can detect in his plight an echo of developments in this country during the years following the American Revolution. There were then many clashes between regional and social interest groups over the uses to which the newly won independence was to be put. The Articles of Confederation—the first constitution of the new republic—left room for populist pressures that interfered with and even threatened the type of society envisioned and desired by the revolutionary leadership. The growing dissension and clash of interest groups led to the abandonment of the Articles of Confederation and the adoption of the present Constitution of the United States of America. It is clear from *The Federalist Papers* (essays by Alexander Hamilton, James Madison, and John Jay written to persuade voters to ratify the new constitution) that the dangers of too much democracy were ever present in the minds of those who crafted and fought for the adoption of a constitution calculated to

THE RETREAT OF THE INTELLECTUALS

SOCIALIST REGISTER 1 9 9 0

Edited by
**RALPH MILIBAND
AND LEO PANITCH**

CONTENTS

- | | |
|----------------------------|--|
| Norman Geras | Seven Types of Obloquy: Travesties of Marxism |
| John Saville | <i>Marxism Today</i> , An Anatomy |
| Ellen Meiksins Wood | The Uses and Abuses of 'Civil Society' |
| Terry Eagleton | Defending the Free World |
| Fredric Jameson | Postmodernism and the Market |
| Bryan D. Palmer | The Eclipse of Materialism: Marxism and the Writing of Social History in the 1980s |
| Paul Cammack | Statism, New Institutionalism, and Marxism |
| Linda Gordon | The Welfare State: Towards a Socialist-Feminist Perspective |
| George Ross | Intellectuals Against the Left: The Case of France |
| Eleanor MacDonald | Demida and the Politics of Interpretation |
| Amy Bartholomew | Should a Marxist Believe in Marx on Rights? |
| John Bellamy Foster | Liberal Practically and the U.S. Left |
| Stephen Gill | Intellectuals and Transnational Capital |
| Arthur MacEwan | Why We are Still Socialists and Marxists after All This |
| Richard Levins | Eulogy Beside an Empty Grave: Reflections on the Future of Socialism |
| Ralph Miliband | Counter Hegemonic Struggles |

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Vol. 16, No. 4

Racism, Powerlessness, and Justice

This issue raises the level of discussion on racism and offers important insights into the central problems and latent conflicts confronting the 1990s.

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provide a safer structure for the protection and preservation of private property.

Despite certain similarities, however, there is a striking difference between what took place during the early days of our republic and what Popov and other leaders of the Soviet Union are concerned about today. The issue the founding fathers faced was how to protect and preserve an existing inequality. The issue facing the leaders of Eastern Europe and the Soviet Union is to design a structure which will protect and support the creation of inequality.

The issue of inequality was very much alive in the days before and after the American Revolution. It should be recalled that at the time of the English Revolution in the seventeenth century there was an outburst of religious radicalism in England. The Levelers, the Diggers, and other dissenting groups challenged not only religious orthodoxy but almost every accepted tenet of the established order as well. Very advanced ideas of egalitarianism were spread widely among the British people. Many of the early English immigrants to America brought their religious heresies and radical egalitarian ideas along with the rest of their baggage. Egalitarian ideas rose from other sources as well. They arose in struggle by the "lower orders" against the powerful few who grabbed vast tracts of frontier land for themselves, notably the armed revolt of the Regulators in North Carolina. The 1760s also saw the rapid spread among the less prosperous sectors in the South of an evangelical religious movement (referred to as the Great Awakening) that challenged the power and life style of the wealthy planters.

Thus, the search for liberty and for major political and economic change took various forms in colonial days—in the realm of egalitarian ideas and during many years of militant, at times armed, struggle against the rich and powerful. For many the revolution for independence brought new hope for radical changes: there were farmers, apprentices, laborers, landless farm workers, and slaves in the revolutionary army who believed they were fighting for much more than the removal of a foreign yoke:

but his meaning is clear when viewed in the context of his other writings. He favored establishing an environment suitable to the development of capitalist commerce and industry. Liberty is fine and good, so long as it doesn't interfere with the rules needed by a business society. James Madison, the great political theoretician and perhaps the most influential draftsman of the Constitution, was crystal clear in describing the dangers of too much democracy: "[M]easures are too often decided, not according to the rules of justice and the rights of the minor party, but by the superior force of an interested and overbearing majority." Later in the same document he gives examples of the "wicked and improper" projects that may pervade an overbearing majority: "[A] rage for paper money, for an abolition of debts, for an equal division of property." (*Federalist* No. 10) The divisions of interest in society, according to Madison, had primarily to do with property. The responsibility of government was to manage the conflicts of interest among the diverse sectors of society, but all within the framework of the preservation of inequality.

The most common and durable source of factions [within society] has been the various and unequal distribution of property. Those who hold and those who are without property have ever formed distinct interests in society. Those who are creditors, and those who are debtors, fall under a like discrimination. A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them in different classes, actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation and involves the spirit of party and faction in the necessary and ordinary operations of government. (*Federalist* No. 10)

It is fascinating to see the reverberations of this theme in Popov's analysis. He not only seeks a firm basis for inequality but finds the key in the establishment and development of private property. There is a close interrelation between three elements in this proposed reversal of the earlier Soviet program: unashamed inequality, extensive private property, and a

The *Crisis of American Labor* has its weaknesses. Griffith, for instance, gives a relative equality of reasons for the demise of Operation Dixie. It is, however, far from clear that these reasons, as important as they were, were of equal weight. Second, as strong a book as it is, *The Crisis of American Labor* ends rather abruptly. While Griffith correctly asserts that the demise of Operation Dixie signaled the beginning of a decline for organized labor, the book could have linked itself a bit more with the present crisis of the U.S. labor movement.

An additional, and perhaps unfair, criticism is that Griffith equivocates on the matter of the actual possibilities for CIO victory. Without question, it is impossible to arrive at a definitive answer, but enough information is provided from her research to indicate that other outcomes were quite possible, despite a reactionary political climate. Textiles, for example, *may not* have been organizable at that point in history. On the other hand left-led unions met with some success in other sectors (and probably could have met with even greater success but for the interference of anti-Communist union raids). In addition, what may have been possible, perhaps necessary, was a prolonged campaign which involved organizing and education. None of this, of course, could have succeeded in a matter of the few short months which was the actual duration of the textile campaign within Operation Dixie.

Another issue not clearly addressed by Griffith is an alliance with the black freedom movement. The history and development of Operation Dixie is so terribly ironic because it transpires precisely at the moment that forces were grouping together in the South to begin the protracted campaign against Jim Crow. Griffith looks at the racial policies of the CIO *vis à vis* black and white workers, but the relationship of the CIO to the developing Civil Rights Movement (which, of course, during the 1940s was only in embryo) goes relatively unexamined. It was not simply that the CIO had inconsistent racial policies *vis à vis* the different sections of the working class. *The CIO had no strategic orientation toward the black freedom movement as a force with which it should or could possibly ally.* There is little evidence that the CIO could conceive of a different alignment of forces whose objective would be the fundamental restructuring of the South.

Despite these weaknesses, Griffith's book should be read by activists of the labor left. Griffith refuses to permit the reader to succumb to simple answers to the problem of Southern organizing. In addition, the labor left can use this book to advance the discussions we

ers, also a left-led union, was willing to put together an inter-racial slate to run for office in one of their Southern locals against an all-white slate.

Yet the haunting question remains: even with left leadership could labor have succeeded, even partially? Although any commentary on this today is speculative, a few notes on that question may be useful.

Griffith demonstrates that political conditions were against the CIO. Not only was the bourgeois making a "right turn," but the American Federation of Labor came out of the Second World War renewed and ready to undermine the CIO.

Second, the South was viewed by the CIO too much as simply another geographic region, not as a *geo-political region* which contained a large African-American population with the *de facto* status of an oppressed nation. Though Griffith does not show any indication of sharing the African-American nation thesis, she does place great emphasis on the question of the regional distinctiveness of the South.

Understanding the geo-political distinctiveness of the South helps place subjective judgments on the part of the CIO. The CIO leadership was familiar with regional differences between New England and the Midwest. It does not downplay such regional differences to stress that the South had its own particularities. The history of white supremacist domination of the African-American population—only matched in intensity by that faced by Chicanos and Native Americans in the Southwest—was the essential feature of the politics and life of the region. The absolute denial of political power, economic equality, or even relative freedom of movement for African-Americans was strikingly different from the situation faced in most other parts of the United States, again, with the exception of the Southwest. Added to this was the generalized repressive atmosphere of the region, which, while having an independent character, is far more integral to the system of racial politics of the region than is acknowledged by Griffith.

Third, the effects of the domestic Cold War and the breakup of the left-center alliance in labor sealed the fate of the campaign. Griffith correctly demonstrates that the unravelling of the alliance was in evidence in the *beginning* of the campaign. The spread of anti-Communism affected the strategy of the campaign from its inception. There was no way, even under optimal conditions, that a movement suspicious of itself would be able to gain the enthusiasm and will to go up against the obstacles faced in a Southern organizing drive.

protective political system. And he puts his cards on the table as frankly as did the framers of the U.S. constitution:

The model of complete democracy we have been trying to follow is bound, in my view, to encounter serious difficulties: first through strikes and then through the consequences of yielding to the demands of left-wing populism, starting at the lower levels of the soviets, and then going higher and higher. . . .

The participants in the political struggle in our [Eastern European] countries today lack the element that is most needed for them to shape a workable society: new forms of property. And in order for new forms of property and new political forces that would reflect them to appear, we need time. But that is precisely what we do not have. If we cannot soon denationalize and privatize property, we will be attacked by waves of workers fighting for their own interests. . . . The first conclusion from the analysis I have been making is that we must speed up changes in the forms of ownership. The second is that we must seek new mechanisms and institutions of political power that will depend less on populism.

Despite the many similarities between this article by Popov and a major theme of *The Federalist Papers*, there is an overriding and ironic difference. The founding fathers were spokesmen for existing ruling classes. Gavril Popov is a spokesman for classes based on a property system that does not yet exist. Although the goal is clear, the road to its achievement is not marked on any of history's available maps.

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THE EXHAUSTION OF DEVELOPMENTAL SOCIALISM: LESSONS FROM CHINA

by CLIFF DURAND

A funny thing happened on the way to market socialism. China started in that direction over a decade ago, seeking to rejuvenate a stagnating economy by basing production decisions on market forces rather than central planning, while regulating the newly-created market in the name of overall social interests. The latter was to give a socialist character to the new system they called "socialism with Chinese characteristics."

But before the decade of the 1980s came to a close, it became clear that the emerging system was not recognizable as any kind of socialism. Even those most permissive in the use of that honorific term, even those prepared to recognize a plurality of socialisms based on different national contexts, began to see that the reforms in China were not headed toward socialism at all. They were taking China down what Mao used to call "the capitalist road." However, it was not a capitalism familiar to Westerners; it was capitalism with Chinese characteristics.

Why did China's attempt to marketize socialism fail? If we take the words of China's reformers at face value and accept that they intended to create a new form of socialism, we have to explain the very different outcome. On the other hand, if we believe they were not really committed to socialism in the first place, we still have to explain how they were able to erect the

Griffith takes a different, and I believe more correct approach, looking first and foremost at the concrete situation in the South at the beginning of the post-war era. She examines the balance between the objective situation on the one hand and the strategies and intentions of the CIO (and its component parts) on the other. Griffith is quite successful in this task, making the book both insightful and useful.

Griffith situates the campaign amid the changes in the United States at the end of the Second World War. Though the CIO had won outstanding victories during the 1930s, the bulk of those victories were in the North. After the war, the CIO leadership realized that an unorganized South would have a detrimental impact on all labor.

Yet the end of the Second World War was also a point when the United States successfully asserted its hegemony over the Western world, and in so doing chose to break its wartime alliance with the USSR. This was coupled with the crushing of domestic progressive movements. Operation Dixie fell right into the center of this changing environment and was affected by it.

The changing context was not the only difficulty faced by the CIO. The CIO did not really understand the "mind of the South," the culture and conditions of labor and the level of oppression and repression suffered by working people in that region. Griffith shows the problems CIO organizers confronted as they attempted to import and apply Northern labor organizing strategies and tactics.

The question left unresolved by Griffith is whether the South *could have been* organized at that historical moment. The evidence she presents is ambiguous on this point. On the one hand, she reports that hard-working organizers faced defeat in textile plants within months of the opening shots of the campaign. The first hand reports she quotes are tragic in their efforts to paint a hopeful picture of the organizing efforts. Though some victories were secured, the "flagship" companies were not cracked.

Interestingly, where the labor left held sway, among tobacco workers, for instance, organizing tended to be more successful. The left was also noteworthy in its willingness to take on the "race question." While traditional labor leaders largely avoided it, fearful of anything which could be read as being "Negro nationalistic" as well as those forms of agitation which appeared too integrationist, the left unions were bolder. The Food and Tobacco Workers, for instance, promoted inter-racial picket lines, a development which from the vantage point of the 1990s may appear modest, but during the late 1940s was a radical step. The leadership of the Packinghouse Work-

BOOKS

A CAMPAIGN THAT FAILED

by Bill Fletcher, Jr.

The Crisis of American Labor: Operation Dixie and the Defeat of the CIO by Barbara S. Griffith. Philadelphia: Temple University Press, 1988. 239 pp. \$29.95.

As a black trade union activist and historian, I have been intrigued with the inability of organized labor to establish more than a toehold in the Sun Belt generally and the South in particular. This interest has been far more than academic, for the inability and unwillingness of organized labor to commit itself to a protracted effort to organize this region has had serious consequences for the possibilities of truly national progressive politics. Fired up with a number of assumptions as to the nature and reasons for the failure of Operation Dixie—the CIO's effort nearly half a century ago to organize the South—I plunged into Barbara Griffith's *The Crisis of American Labor*.

Griffith's account of Operation Dixie proved sobering. The answers to the problems faced by the CIO in 1946 were not so simple as many—myself included—tended to believe, nor did the problems and answers revolve exclusively around the question of “will.” The failure of the 1946–1953 effort at Southern organizing have generally received two different explanations. From the right, or traditional organized labor, the failure of the effort is blamed not only on employer resistance, but on the backwardness of the region, and the workers of that region. From the left, the explanation has acknowledged bitter employer resistance, but has placed emphasis on organized labor's unwillingness to confront racism and labor's own collapse into anti-Communism.

Bill Fletcher, Jr. is a Washington, D.C.-based labor activist and writer. He is also an associate editor of the socialist magazine *Forward Motion*.

beginnings of capitalism on what had been socialist foundations and to comprehend the strange kind of capitalism that resulted.

As more and more socialist societies embark on their own experiments with marketization, it becomes increasingly clear that the most likely outcome is not market socialism but bureaucratic capitalism, with comprador tendencies more or less pronounced depending on linkages with the world market. The emergence of a market along with private property (even if the commanding heights of the economy remain under state ownership) offers a prime opportunity for *apparatchiks* to capitalize on their official power and turn their bureaucratic privileges into personal wealth.

Samir Amin's voice rings out clearly in the rising chorus that warns those popular forces in Eastern Europe who attack the *nomenklatura* for their privileges under actually existing socialism that

the class aspiring to form a bourgeoisie will inevitably be composed of just this *nomenklatura*, that the privileges it has enjoyed are as nothing in comparison with the social inequalities under actually existing capitalism.¹

In country after country, an old ruling class is not just abandoning a sinking socialist ship, but seeking to convert itself into a new capitalist ruling class.

In Eastern Europe we see telescoped into a few months a process that has gone on in China for a decade. To understand these developments, we must first recognize that *any effort to introduce market-oriented reforms will be shaped by the class forces that already exist in a society*. It is not possible to snatch market socialism out of the heavens *ex nihilo* and plant it on the ground. It must be born from the old society, and consequently it will be shaped by the womb from which it emerges.

The various state socialisms that have been created in the twentieth century have had a tendency to become bureaucratized. Where this tendency has not been successfully kept in check, it has resulted in the consolidation of a ruling bureaucratic class.

Carlos Vilas calls them “bureaucratic monarchies,”² no

double because the state/party is almost a hereditary, self-perpetuating elite. Unlike Weberian bureaucracies of the western type, appointment is not based in principle on technical or professional qualifications alone, but on political criteria. Those who proved themselves by participation in the revolutionary struggle or, in later generations, those who have convinced party superiors of their ideological reliability, rise to positions of official authority. The tendency is for such a *polibureaucracy* to evolve into a ruling class, guided no longer so much by a real political commitment to socialism as by a politics of self-interest. Then state socialism becomes *bureaucratic socialism*.

It was just such a ruling class that formed in the People's Republic of China, in spite of the fact that China's leaders had come to state power in 1949 through a mass revolutionary movement unprecedented in scale or duration. The leaders had survived two decades of armed struggle because they represented the interests and aspirations of millions of peasants as well as workers, intellectuals, petty bourgeois, and even some patriotic capitalists. In order to survive, guerrillas become accountable to the masses on whom they depend—a kind of rough democracy.

Once China's revolutionaries came to power, the problem for socialism was how to keep them accountable to the masses. Neither institutionalized procedures nor Mao's repeated efforts at rectification through mass campaigns were able to solve this problem. Vilas's description certainly fits the case of China.

The state/party displaced and then subordinated the masses, and turned their unions, cooperatives, and other organizations into apparatuses . . . government on behalf of the workers' interests turned into the regime of officials; the primacy of the plan became the primacy of the planners; and the defense of the revolution became the rule of the state security apparatuses.³

Mao recognized that the contradiction between the leaders and the led existed even under socialism and that this contradiction could be dealt with only by the active participation of the people. But rather than seeking to institutionalize popular participation, Mao sought to keep the polibureaucracy

girls. One quarter drop out before graduation, and over 90 percent of the graduates get admitted to universities. If these figures are true, the girls are doing better than the boys.

Some members of our delegation witnessed the jamming of TV Martí. TV Martí costs the United States \$44 million, and the Cubans say it costs them \$22,000 to jam it.

Our impression is that it is unlikely that the top levels of the PCC will reduce their centralized control as long as their country is under siege by the United States. They cannot be unaware of the growth of bureaucracy and corruption in other Communist Parties, but there is no sign yet that they are ready to adopt any structural checks and balances to prevent it in the PCC. Their party structure seems to aim for democracy at the bottom and centralism at the top. Perhaps this will be one of the issues before the upcoming PCC Congress in January 1991. The language of the call for discussion of the Congress is broad enough to include it.

We think that the Cuban Revolution has something basic and important to teach to other movements, a humane socialism that puts people and their creativity in the forefront. La Guinera typifies what we mean, but almost any cooperative enterprise that the people want and plan and work to achieve is a step forward in the socialist revolution. The ultimate test is the transformation of the human beings in the process.

Philip Eden

1913-1990

Economist, contributor to *Monthly Review*,
former International Longshoremen's and
Warehousemen's Union assistant research director.

"In the restoration of community lies the
hope of humanity. The ultimate issue may
be socialism or a descent into barbarism."

San Francisco Bay Area Friends of Monthly Review

but cannot employ others outside the family. We saw many such individuals vending snacks, etc. The Cubans are pragmatic and are encouraging joint ventures with foreign capital in the tourist industry, for example, ventures with Spanish capital at Veradero and with Canadian capital at the Bucanero resort near Santiago de Cuba, which some of us visited.

Cuba is one of the most advanced of the third world countries. The highways leading out of major cities are often lined with plants and enterprises of various kinds, much like those of similar cities in the United States. In medical care and education, both free, Cuba is clearly ahead of other third world countries.

Cuba is far more egalitarian than most other countries. We were told that the range of salaries was from 120 pesos minimum to about 450 maximum; most of the numbers we got in our questioning fell within this range.

We saw no homeless people. We did see overcrowding in old buildings inherited from before the revolution. We also saw many new apartment buildings, and new construction everywhere. Some members of the delegation visited La Gaihera on the outskirts of Havana. This is a slanty-town area of about 20,000 inhabitants, mostly blacks from the eastern provinces. At the initiative of Josefina Bocour Diaz, a black woman in the community, they have organized themselves into social brigades. These brigades, trained by and working with experienced construction workers, have built new apartment buildings. The materials were advanced by the state. All were paid prevailing rates for the work they did. They now live in and own these new apartments and are paying off the government mortgages with a 2 percent interest rate.

The Western Women's Prison we saw is a model prison for serious crimes ranging from forcible entry to embezzlement and murder, with sentences from six months to twenty years. The inmates are paid the prevailing wage rate for working on textiles. Conjugal visits are allowed every 15 days. The prison was built to hold 1,000 prisoners but at the time of our visit there were only 300. Our hosts claimed the rate of recidivism was very low.

Our impression was that many women are being absorbed into skilled work. We visited the Lenin Senior High School, which specializes in math and science, but instills a respect for both mental and manual labor by combining study and work. Admission is primarily based on junior high school grades. We were told the school had 4,600 applicants this year and admitted 2,000, 62 percent of whom were

in check by periodic mass campaigns of criticism. He could not accept that the centralist party that had been necessary to win power would now have to become democratic if genuinely socialist relations were to be created.

Instead, the Chinese Communists constructed a party/state apparatus more powerful than the Mandarin bureaucracy of old, directly controlling the means of production and monopolizing all political and economic power. This power was supposed to be wielded in the interest of the workers and peasants, to be sure. But, in fact, the popular masses were at best to be the dependent beneficiaries of a benevolent bureaucracy. The class relations of bureaucratic socialism became the paternalistic relations between an active leadership, claiming "scientific knowledge," and an inactive populace that had to depend on cadre economically, politically, and socially. This subaltern status was broken by occasional spasms of rebellion that were subject to the manipulation of political opportunists.

The most dramatic of these rebellions was the Cultural Revolution of the late 1960s. At the top, this was a power struggle between two factions within the party: Mao's group and those he labeled "capitalist roaders." At the base, this massive upheaval was an antibureaucratic struggle of the popular classes against unresponsive local leaders.

But rather than arresting the bureaucratic tendencies of state socialism, the Cultural Revolution only exacerbated them. Opportunists sought to rise in the party/state hierarchy over the fallen bodies of the cadre they attacked, while genuine revolutionaries who rose from the masses often were turned into bureaucrats by the system into which they were inserted. The cadre sought to protect themselves not by uniting with the masses, but by currying favor with superiors who had the power to protect them. In other words, the Cultural Revolution only increased the importance of the network of personal alliances and connections (*guanxi*) in the political life of the cadre. The party ended up becoming less democratically accountable rather than more.

Guanxi became more necessary for the functioning of economic institutions as well, due to recurring breakdowns of

a new form. That is what made it impossible to achieve market socialism.

Grown accustomed to their privileges and expecting to pass them on to their children, many cadres were not willing simply to fade away. At all levels of the hierarchy, cadre seized unprecedented opportunities to use their connections to go into business. And in the emerging system, those with the best *guanxi* were most successful.

At the top of the politbureaucracy, Deng succeeded in persuading high-ranking, elderly cadre with long political careers to retire and make way for younger, better educated and technically trained personnel. But high-ranking cadre would step aside only after they had assured that their children were well placed in lucrative businesses. While party rules forbade cadre from going into business themselves, there were a thousand ways officials could favor relatives, friends, and allies who were free "to get rich first" as entrepreneurs. With the right connections they could quickly grow into big bourgeois businessmen—capitalists. So rather than committing class suicide, the politbureaucracy undertook to transform itself into a *bureaucratic capitalist class*.

The tendency for state and party cadres to evolve into a bureaucratic capitalist class should be distinguished from the "red bourgeois" criticized during the Cultural Revolution. Then the term "bourgeoisie" was used polemically against those who used their position in the politbureaucracy to accumulate power and privilege and to ensure a position for their children in this ruling class. But, because private ownership of the means of production could not be accumulated and inherited, they were not literally a bourgeoisie. Once private ownership of the means of production became possible under market reforms, a new opportunity was opened up for the members of the politbureaucracy to become not a red but a real bourgeoisie.

During the 1980s, bureaucratic capitalism was able to flourish precisely because of the transitional character of the reforms. The beginnings of a market enabled officials to turn their bureaucratic connections into private wealth. The combination of a still-strong bureaucracy and a weak market

CORRESPONDENCE

A SUCCESSFUL CONFERENCE IN HAVANA

by Philip Eden, Cliff DuRand, Patricia Mills, Bertell Ollman, and Frank Thompson

Last June we participated in a conference of North American and Cuban philosophers on "Human Being and Social Progress," in Havana. As you know, the United States blockades both trade and travel to Cuba. Tourists are not permitted to go there to see for themselves what is happening. The major exceptions under U.S. rules are journalists and professionals for research or professional meetings. As a result of this blockade, there is much misinformation about Cuba in this country. It is pictured as a police state and Fidel as the last of the "hardline" Communists.

Our visit occurred at a dangerous time in Cuban history. Cubans feel threatened by the U.S. blockade, the invasions of Grenada and Panama, the launching of TV Martí, and recent U.S. naval and air maneuvers near Cuba. They feel threatened by developments in Nicaragua and the turmoil and change in the Soviet Union and Eastern Europe on whom they have been dependent for four-fifths of their foreign trade. They feel threatened as the United States begins to shift the deployment of its armed forces from Europe and the East to Latin America in the South. So they are preparing for difficult times ahead. All over the country are billboards: *Padría o muerte* and *Socialismo o muerte*. Fidel Castro spoke before the Women's Federation recently, describing what he called "a special period" coming up of increasing dangers from the United States, possible lessening of trade

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can workers in fact did express mutual support for strikers in textiles, electronics, agriculture, and mining, but this was only a modest beginning compared to what will be needed.

With the PRI losing public credibility and Mexicans taking to the streets to demand their basic rights, talk of a military coup has become more common. Many observers note, however, that the PRI has survived tough times for decades and might well weather even this latest political earthquake.

One thing everyone agrees on: Mexico is not yet out of its deepest economic crisis since the Great Depression of the 1930s. Mexico now also confronts its greatest political crisis since the overthrow of another antiquated state of old men and middle-aged technocrats, the Díaz dictatorship of 1876-1911. Resolution of that crisis took a revolution.

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sidetracked the reforms into a bureaucratic capitalism reminiscent of what the revolution had overthrown four decades earlier.

Mao was right after all. Market reform is the road back to capitalism in China—but not a text book kind of competitive capitalism. It leads to a bureaucratic capitalism akin to that of old China.

Mao had identified bureaucrat capitalists as one of the major classes in pre-revolutionary China. These consisted of a small number of families who were both officials in the Guomindang government and capitalists. This dual location in the state bureaucracy and in private business had enabled them to use their political power to augment their personal capital.

This was a continuation on a larger scale of a pattern familiar in China's history. The gentry had also used official positions to enhance their wealth as landowners. Indeed, as China's pre-revolutionary social formation began to include a capitalist mode of production there emerged, according to Victor Lippit:

one elite class with two distinct strata skimming off the surplus. . . . The upper stratum was composed of high officials, big businessmen, and big landowners. The local stratum, much larger in number, dominated village life . . . [Because] the profitability of big business depended on monopoly and of all business on official connections . . . the path to riches was through connections and corruption rather than through innovation and capital formation.⁵

In the decades that followed their coming to power in 1949, the party/state elite gradually lost its revolutionary ethos, and some members eventually began to seek to pass privileges on to their children and achieve class closure. The popular classes soon became aware of a clear line dividing "us" from "them," the people from the cadre. The effort to move upward across this line is summarized in a popular expression heard frequently in China in recent years:

When we went to the countryside, they went into the People's Liberation Army. When we went into the PLA, they went to college.

When we went to college, they went abroad. Now that we study abroad, they go into business.

This saying illustrates the shifting locus of the institutional means for transferring privilege that enabled the elite to stay one step ahead of the aspiring members of other classes. Through the reforms, the elite found the way to pass their privilege on to their children. While their children cannot inherit their offices, property accumulated through business is inheritable. And while many would-be entrepreneurs may enter a petty bourgeois commodity economy, those with connections have all the advantages. They will prosper and grow, and with official protection, might even develop monopolies.

Thus, success in a growing market that never even approximated the Adam Smith myth depended more on *guanxi* than on talent, education, hard work, or luck. This was especially disturbing to China's college students. Students were training to become members of the technocratic-managerial class that they thought would lead China under market socialism; they were to become the new *prilintentsia*, as Daniel Singer calls it.⁶ Instead, they found themselves edged out by the children of the politbureaucracy.

It is in this light that we should view last spring's demonstrations against corruption and for democracy. The students had a class interest in demanding an end to official corruption and calling for political reforms that would curb the power of the politbureaucracy. Their interest lay in the meritocracy they thought was promised by market socialism.

Protesting students were soon joined by other popular classes. State workers had a class interest in opposing market reforms that promised to turn labor power into a commodity and thereby destroy the security they had long enjoyed under bureaucratic socialism.

In addition, there was a widespread, conscious interest among all urban residents in ending the inflation brought on by the price reforms and exacerbated by the profiteering of bureaucratic capitalists. The possibility that the burgeoning urban movement might link up with peasants angered by price

reformed PRI one), Mexico's experience suggests that continuation of an oil-based "monoculture" and so-called "export-led growth" cannot provide economically for the citizenry. Moreover, development of a capital goods industry, if it remains dependent on the "good will" of transnational corporations that provide most of the machinery and technological know-how, can only accelerate capital accumulation abroad and further tie Mexico's economy to the dictates of international lending agencies.

An approach more sensitive to the long-run interests of the Mexicans themselves would be to reinvest export earnings and monies saved from debt relief to expend domestic demand, develop more vigorous internal markets, and provide desperately needed social services. Food production should go first to Mexicans, and only later to foreigners. A vast public housing, health care, and unemployment compensation system must be introduced. People have to be put back to work building homes, schools, clinics, and improving creaking infrastructure.

To succeed—and here's the rub—such an approach would have to break the integrated blocs of power represented by the triumvirate of state/private capital/foreign capital. The commanding heights of Mexico's economy would have to be not privatized but nationalized, and not for the benefit of a few but for the benefit of the working majority. All economic activity—the uses of the nation's natural resources and labor power, the meeting of community needs, and the full use of industrial productive capacity (two-thirds of which is not fully used at present)—would have to be brought into mutually reinforcing convergence. Above all, this approach would require popular support, obtainable only through genuine democratic participation from the grassroots on up through every level of a new state, not the present illegitimate one.

Any attempt whatsoever to democratize Mexico can provoke even greater state repression than what Mexicans have already experienced. The only check against this ugly scenario is the strengthening of the mass popular movements and the internationalizing of labor's struggle to match modern capital's internationalization. In the 1970s and 1980s, U.S. and Mexi-

Rodríguez, received death threats, causing an international outcry.

Despite Salinas's cuddling up to U.S. economic interests, U.S.-Mexican relations have grown rather tense. The U.S. armed interventions in Grenada, Nicaragua, and Panama have been widely viewed in Mexico as "imperialistic." The DEA's April 1990 payment of a bounty for the abduction in Mexico of a doctor allegedly involved in the death of a DEA agent further rankled Mexicans. Many Mexicans believe that the U.S. "anti-drug war" is hype aimed at preventing profits of the U.S. drug trade, valued at \$200 billion dollar a year, from leaving the United States. The U.S. government attacks foreign narco-traffickers but does not go after the big U.S. drug mafias or the cocaine and arms operatives of Oliver North's White House basement "contra" operation.

Another ticklish issue in U.S.-Mexico relations is the 1986 Immigration Reform and Control Act (IRCA, also known as the Simpson-Mazzoli bill). IRCA unilaterally reinstituted a *bracero*-type immigrant labor system. This time, however, unlike the days of the bilateral *bracero* agreement (1942-1964), the Mexican government has no say in the U.S. recruitment of Mexican contract labor. Except for the *bracero* program and IRCA, contract labor has been outlawed in the United States since 1886.

In addition, IRCA makes illegal the Mexican immigrants' independently organized 25,000-strong American Federation of Workers, which formed in the 1980s when Cesar Chavez's United Farm Workers proved inadequate. IRCA was passed in part to turn back this successful unionizing effort.

Since IRCA's passage, millions of Mexicans have headed "al norte" to obtain work contracts or falsified "amnesty" papers. The border area has become a war zone, with U.S. Border Patrol officials shooting into Mexican territory. Mexican "undocumented" workers and Central American political refugees are filling America's concentration camps (cuphemistically called "detention centers") faster than the government can fund the construction of new ones.

Even in the unlikely case of a future PRD government (or a

gouging by rural officials, suggests the potential for a truly massive movement.

While Deng placed himself against this new multi-class coalition that began to form in opposition to the corruption, social polarization, and economic disruption created by his reforms, the popular coalition found a powerful supporter in Zhao Ziyang. But not powerful enough. With the help of the army and aging politbureaucrats whom he called out of retirement, Deng carried out a successful coup d'état on June 4, 1989.

The political crisis last spring arose from the failure to create market socialism, a reform effort that was resulting instead in a bureaucratic capitalism that combined not the best features of socialism and capitalism, but the worst features of both. Once again Mao was right: the future of China will be shaped by class struggle. In the multi-class mass movement against bureaucratic capitalism that began to blossom around the Tiananmen demonstrations there was the glimmer of a new vision of socialism for China. Deng's coup did not resolve this crisis any more than it resolved the primary contradiction of the reform effort. It only further alienated the party and government from the people, including, I suspect, most of the cadre who now wish more than ever that the Communist Party and the People's Liberation Army could regain the high regard they once enjoyed. The political struggle is not yet over.

As a tentative generalization from the above, I would suggest that what we have been witnessing over the last decade, not only in China but elsewhere throughout what used to be called "the socialist world," is the *exhaustion of developmental socialism*. The efforts by socialists to use state power to do for their society what capitalism had failed to do (develop advanced forces of production and social labor) has resulted in almost all cases in a bureaucratic socialism ruled by a politbureaucratic class. When this social formation reaches its developmental limits, stagnation sets in, which the ruling class attempts to overcome by moving toward market socialism. But in opening up a market system the politbureaucracy is very likely to transform itself into a bureaucratic capitalist class.

Whether this is a conscious strategy to perpetuate itself as a class or only the unintended result matters little. Unless checked by popular forces, the outcome is a transition not to a new form of socialism, but back to a type of capitalism.

Perhaps Marx was right after all: socialism is possible only on foundations created by advanced capitalism. As the twentieth century's efforts to create socialism under Third World conditions crumble before our eyes, we need to be brought back to our political tasks here in the First World. The world crisis of socialism need not be our crisis. Even if we conclude that in the final analysis socialism cannot be built in one or even in many Third World countries, that does not tell us what is possible or impossible in the West. In the long run the prospects of building a socialism that is not only a real economic democracy but an economic success are much brighter here.

This is not to deny that there may be socialist revolutions in many parts of the periphery or semi-periphery. Amin and Vilas are correct in suggesting that the incorporation of the formerly socialist countries into capitalism's world system will breed new revolutionary movements, many of which will become radicalized in a socialist direction. But as Vilas points out, the chances for survival are greatly dimmed by the absence of a socialist world to protect and support fledgling socialist states. Those bold enough to try may end up where the Sandinistas now find themselves: their best efforts destroyed by imperialism, they have to content themselves with "ruling from below."

What would give the peoples of the Third World a real chance to build socialism would be a move by the U.S. toward becoming socialist or even social democratic. That may sound utopian at this moment in history. But it may well be that in its unrelenting efforts for a half century to exhaust socialist projects elsewhere, U.S. capitalism has brought itself to the brink of exhaustion as well. Be that as it may, independent socialists now have the opportunity to re-envision the socialist project in *our society* unencumbered by ideological baggage from revolutions undertaken under very different conditions.

Galicia. Hernández's replacement, another *charro*, laid off 30,000 *jornaleros* (day workers) at the state oil firm PEMEX and deunionized 10,000 technical and professional workers. The government used a variant of this approach in ridding the teachers' union, the SNTE, of its boss of 17 years, appointing another *charro*.

Nonetheless, Salinas has had to resort to repression more than he would like. In his first year in office, forty-four PRD activists were assassinated and several more peasant and worker leaders fell before the hail of "coming together" (*concertación*) bullets. Federal troops broke a miners' strike at Cananea, and state-owned mines there were subsequently sold off at bargain prices. Mexico's "death squads" stepped up their atrocities (36 journalists were assassinated in the 1980s). The mastermind of the murder of journalist Manuel Buendía turned out to be the person covering it up, the Director of the National Security Police. A Mexican army deserter confirmed executions of political prisoners in Military Camp Number One.

Under Salinas, a former member of the army's elite "anti-terrorist" White Brigade (widely accused of human rights violations) was appointed chief of the Federal District judiciary police to (in his words) "persuade the *cardenista* majority in this city not to insist on its rights." The new Director of Intelligence of the Mexico City Police was none other than Miguel Nassar Haro, earlier saved by the CIA from U.S. Justice Department prosecution for protecting drug traffickers and a known torturer of political prisoners. Later, when it was discovered that Nassar Haro had set up a new torture chamber, public outrage forced him to resign.

Needless to say, the Mexican government has been receiving bad human rights report cards. For example, on June 14, 1990, Americas Watch condemned Mexico's "policy of impunity" for human rights abuses. These included disappearances, electoral violence, violations of freedom of press, and repression of independent trade unions and peasant groups. Lawyer and human rights activist Norma Corona was assassinated on May 21, 1990. The following month, respected international political columnist Jorge Castañeda and his assistant, Mariana

Nonetheless, all the hoopla about the PRI's "democratization" in the months leading up to the PRI's 14th general assembly did persuade some dissidents to re-enter the fold. Now, many of them are thinking of leaving again.

Meanwhile, when it became clear that the rest of the world led by Fidel Castro and Ronald Reagan was celebrating Salinas's election, Cárdenas's broad-based electoral coalition disintegrated. Cárdenas's remaining followers organized themselves into the PRD (Party of the Democratic Revolution). The PRD brings under its Aztec sun banner the nation's largest left-wing political party, the PMS (Mexican Socialist Party, an amalgam of the old Communist party with the much larger left-populist Mexican Workers' party. The PRD lacks ideological coherence and has no program beyond a vague nationalist populism. It champions popular causes, new elections, and the "abolition of the one-party state and corporativism," but it offers little to assure skeptical Mexicans that their lives will improve.

The PAN's critical support of Salinas has won it recognition of a gubernatorial election victory in Baja California in 1989. On the other hand, the PRD's ongoing denunciation of Salinas has resulted in the denial of landslide PRD electoral wins in Michoacán and Guerrero. Peasants, workers, and students occupied several municipal offices in those two states in 1989-1990 to protest the blatant electoral fraud. When they began setting up a "dual power" structure of self-governance, Salinas ordered out-of-state army units to dislodge the dissidents by force. At least 60 people were gunned down, testimony to the true nature of the PRI's promises of democracy.

In an attempt to "depoliticize" the resurgent popular movements, many of whose activists have taken the side of the PRD, President Salinas has introduced a policy of *concertación* ("coming together"). Through this policy he has succeeded in persuading some local food committees run by women's councils to administer the state's warehousing and distribution of food and other basic staples. Salinas has lured the independent electrical workers' union back into the labor confederation headed by Velázquez. In January 1989, Salinas ordered the arrest of corrupt oil union boss Joaquín ("La Quina") Hernández

NOTES

1. Samir Amin, "The Future of Socialism" *Monthly Review*, 42, no.3 (July-August 1990) p. 22.
2. Carlos M. Vilas, "Is Socialism Still an Alternative for the Third World?" *Ibid* p. 97.
3. *Ibid*.
4. Progressive forces would be well served if someone could analyze the limits of developmental socialism in as clear a way as David Harvey has done for capitalism in his book *The Limits to Capital* (Chicago: University of Chicago Press, 1982).
5. Victor Lippit, *The Economic Development of China* (White Plains: M. E. Sharpe, 1987) pp. 83, 85.
6. Daniel Singer, "Prometheus Rebound," *Monthly Review*, (July-August 1990) p. 83.

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Trotskyists' PRI (Revolutionary Workers' Party). Businessman Manuel Clouthier, the candidate of the right wing's "loyal opposition" PAN (National Action Party) received that party's usual 17 percent of the vote.

According to public opinion surveys, less than a quarter of Mexicans believe Salinas is a legitimate, fairly elected president. The PRI, holding a slim 260-to-240 majority of seats in the lower house, is today badly divided between oldtime party bosses known as "dinosaurs"; technocrats and "reformers" like Salinas; and two dissident groups known as the "Critical Current" and the "Movement for Democratic Change."

The "Critical Current" boycotted the 14th general assembly of the PRI in September 1990. PRI chairman Luis Donaldo Colosio announced in advance that the assembly would "reach agreements that will allow us, above all else, to retain power by democratic means." "The assembly did agree to conserve the rapidly disappearing *ejido*—traditional Indian communal property now 90 percent privately owned in supposedly non-alienable small parcels by *ejido* members. On human rights, the PRI assembly pledged to transform the police forces and reduce the juridical value of detainees' supposed 'confessions.' But the most important agreements of all were to reform Mexico's undemocratic political system.

In light of other recent "reforms," the PRI's new agreements appeared to be "too little, too late." After all, the earlier reforms had amounted to little more than cosmetic changes, mere window-dressing, with no change in the nation's course. The reforms of 1984 brought more women into a new party national council. Reforms in 1986 expanded opposition seats in Congress to 150 of 500. Another "reform" guaranteed the executive an automatic majority of support in Congress.

The 1990 reforms make membership in the PRI's three sectors (unions, peasant organizations, and professional associations) voluntary instead of compulsory. They even allow candidacies for elective office to be contested within the PRI, with certain restrictions. Yet real internal party democracy remains an unlikely prospect. The supposed openness for candidate selection does not apply to the presidential nomination.

POVERTY CRISIS IN THE THIRD WORLD: THE CONTRADICTIONS OF WORLD BANK POLICY

by PAUL BURKETT

While free market ideology is on the rise, both in the developed countries and in the U.S.S.R., Eastern Europe, and China, the global capitalist system is entering the third decade of a profound structural crisis. The costs of this crisis and of the capitalist response to it—borne largely by the exploited and oppressed peoples of the periphery—are reflected in the World Bank's 1990 *World Development Report* (New York: Oxford University Press, hereafter WDR-90), which finds it necessary to outline a strategy specifically aimed at alleviating third world poverty. Indeed, WDR-90 proposes an intensified effort to ensure that the poor have access to both a safety net of basic social services (food, medical care, primary education, and family planning) and "social and political institutions, infrastructure, and technology" which "promote the productive use of the poor's most abundant asset—labor." (p. 3)

This recognition that poverty will not be automatically removed by "trickle down" effects of capitalist growth (let alone by private charities—Bush's "thousand points of light") is a welcome development. But, unfortunately, WDR-90 does not use this insight to develop an analysis of how peripheral capitalist development reproduces mass poverty. Instead, it argues that basic needs satisfaction is consistent with free

Paul Burkett teaches economics at the University of Miami in Coral Gables, Florida.

of it in Japanese yen). Debt-for-equity swaps on the nation's \$103 billion foreign debt delivered \$4 billion worth of Mexican enterprises to foreigners.

The powerful right-wing capitalists of northern Mexico's "Monterrey Group" also offered their foreign creditors stockholdings in exchange for debt reduction. Except for oil, most big industry consolidated in the north. Interest rates remained high, food and rental prices skyrocketed, oil revenues declined, and annual GDP growth averaged zero percent. Wealthy Mexicans reputedly sent abroad \$6 billion a year ("flight capital").

In the midst of the 1980s' depression, public and private employees could no longer maintain their standard of living. People worked more jobs at lower pay. Meanwhile, Mexico's total net payments to foreign countries from 1982 to 1988 totalled \$68 billion. Thus, the "suction pump" kept draining whatever economic surplus workers produced.

In 1989-90, now as president, Salinas halved the number of remaining state enterprises to under 400. The IMF rewarded him by declaring Mexico a "preferred debtor nation." Salinas then began selling off the remaining banks of the 1982 "nationalized" banking sector, as well as the national telephone company and state-owned sugar mills. He faced a nationalist outcry, however, when he accepted membership in GATT (General Agreement on Trade and Tariffs) and acknowledged secret bilateral talks with the United States on a free trade pact. He reacted by launching a powerful propaganda campaign in favor of making the present "silent integration" of Mexico with the U.S. economy an official "common market" one. Mexico is the United States' third largest trading partner, after Canada and Japan.

Salinas's main opponent in the 1988 election was Cuauhtémoc Cárdenas, son of Mexico's most popular president, the late Lázaro Cárdenas, who nationalized oil in 1938. The former Michoacán governor, expelled from the PRI with the rest of the party's "democratic current," garnered an official 31 percent of the vote. Cárdenas still claims he won the election and that the Salinas presidency has no legitimacy. Cárdenas's 1988 candidacy was backed by every major leftist party except the

market policies of "adjustment" and "reform." The World Bank's position is that provision of basic social services, technology, and infrastructure makes people more productive. Then, if markets are allowed to allocate capital, labor, and the goods they produce, people will reap higher incomes from this increased productivity. In this view, if working people are poor it must be because (1) they are not producing enough, and/or (2) the income generated in the production and sale of goods is too low due to the government's failure to allow "market forces" to operate.

The basic problem with this whole approach is that it sidesteps the crucial question: production *of what and for whom?* By focussing on this question, the real meaning of WDR-90's "two-part strategy" becomes clear in three ways: First, by associating rising living standards with increased productivity, and by clever manipulation of data, WDR-90 defines third world poverty to make it consistent with the World Bank's true "basic needs" agenda: that of reproducing an exploitable labor force in the periphery.

Second, WDR-90's two-part strategy presumes that free-market policies of adjustment and reform will lead in the long run to rising per-capita incomes. Here, recent experience suggests that the true purpose of free-market policies is not increased growth, but rather: (1) extraction of surplus from peripheral countries going through external debt crises, and (2) a tighter integration of peripheral countries into the global capitalist system along lines consistent with the interests of core capital and allied capitalists within the periphery.

Third, even if WDR-90's limited definition of poverty is accepted, its assertion that financing the basic needs of the poor is consistent with free-market policies of adjustment and reform is completely unrealistic. Here, while recognizing that basic needs satisfaction may conflict with the interests of the "non-poor," WDR-90 does not locate the non-poor in terms of the basic structure of global capitalism—a structure which by its nature marginalizes the basic needs of the peripheral working class. In this context, basic-needs programs inherently

conflict with adjustment and reform policies, whose very purpose is to ensure the continued integration of peripheral countries into the global capitalist system. This contradiction is reflected in the fact that, whenever it discusses potential conflicts between the basic needs of the poor and adjustment of domestic demand or the interests of the non-poor, WDR-90 gives the latter top priority.

Nature and Extent of Third World Poverty

WDR-90's concept of poverty tells us a lot about its views on the extent of the problem, the reasons it exists, and the limitations of its program for "the eradication of poverty from the world." (p.7) The World Bank basically divides the poor into two categories: the working poor, and the unemployed who are unable to work due to age or ill-health. WDR-90's proposed "safety net" of basic social services is meant to maintain the subsistence of the unemployed and to help the working poor become more productive. Meanwhile, the greater access of the working poor to infrastructure and technology is supposed to further increase the productivity of their labor. If markets are allowed to operate freely this higher productivity would translate into higher incomes and improved living standards for the working poor.

As previously noted, the crucial assumption here is that if working people are poor they must either not be producing enough, or, if increased production does not translate into higher incomes, this must involve inefficiency due to government interference with market forces. For WDR-90, this has two important implications. First, if third world people do have access to "income earning opportunities" in the "formal" i.e., organized capitalist sector—and if this sector is allowed to respond to market forces—then by definition these people are not poor. Thus, at one stroke, the eradication of poverty is defined to involve primarily raising incomes in the "informal" sector where production is not organized along strictly capitalist lines.¹ Indeed, WDR-90 states that "there is little poverty, in any case, in the formal sector." (p.63) The second, equally important implication is that if poverty does exist in the formal

PRI falsely governs. Another tradition is university autonomy. In 1988, students at the National University won a militant strike that gave them a significant voice in policymaking. In previous strikes, troops had been sent and heads cracked. Since 1985, the state has feared the consequences of yet another military intervention. Decent paying jobs have grown more scarce for Mexico's college graduates, who have a proud tradition of sparking radical social change.

Underlying the rise in social protest has been a deepening of Mexico's economic crisis first manifested by the government's 1982 announcement that it could no longer meet the monthly payments on its debt. Despite the state's increased investments in petroleum, debt-for-equity swaps, sell-off of state enterprises, easing of conditions for foreign investment, and repeated implementation of IMF-imposed austerity programs, Mexico's economic crisis intensified throughout the 1980s. As more and more Mexicans tightened their belts and struggled to survive, they lost what shreds of faith remained in Mexico's political system.

Half of Mexico's registered voters abstained from the 1988 presidential contest. A majority of the other half voted the PRI out of office. Computers conveniently "failed" on election night, and results from half the voting booths have never been made public. The PRI "won" with 50.4 percent, a far cry from its usual 75 percent and up.

The new president, Salinas (Harvard Ph.D., 1978), is a member of Mexico's techno-bureaucracy. He has sped up the pace of "privatization" of the state sector of the economy, a policy he first engineered as Minister of Budget and Planning in the outgoing administration of President Miguel de la Madrid (also a Harvard graduate).

During his stint as minister, Salinas's "shock therapy" privatized 500 state corporations, slashed state expenditures to 17 percent of GDP (down from 30 percent in 1981), and reduced real wages by 60 percent. The exchange rate of the peso tumbled to about 2,400 to the dollar (3,400 by October 1990), making Mexican labor even cheaper for foreign *maquiladora* owners who responded by investing another \$10 billion (much

democratic organizations of the urban poor, almost all linked to the pro-socialist CONAMUP (National Council of Popular Urban Movements), founded in 1981. Women activists organized community kitchens, laundries, and child care centers, and simultaneously campaigned against rape and battering.

Other groups swung into action. In the wake of the failure of a state effort to return peasants to the countryside to grow enough food to feed the nation, peasants and Indians escalated their mobilizations for basic rights. They demanded more say in the distribution of benefits of export-oriented agriculture; a "bill of rights" for migrant workers at home and abroad; and genuine land reform. The COCEI (Coalition of Workers, Peasants, and Students of the Isthmus) repeatedly won city council elections in Juchitan, Oaxaca, and in 1989 helped organize the First International Forum on the Human Rights of Indian Peoples.

Mexico's new labor militancy of rank-and-file workers demanding democratic control of labor unions also picked up steam. Repressed during the 1970s and early 1980s, this movement is rooted in the ranks of the best-paid workers of the most modern factories. As a result, its political muscle is considerable.

In 1987, some 10,500 workers at the Volkswagen plant in Puebla won a 57-day strike against layoffs. In 1989, half a million unionized schoolteachers, who are very proletarian in their wage level and life style, won a strike for a pay hike and broke PRI's corporatist control over several union locals. In 1990, workers walked out against corporatism and *charismo* (corrupt labor bossism) at the Ford engine assembly plant, at the nation's largest brewery, and at other major workplaces. Rank-and-file workers are demanding the removal of 90-year-old Fidel Velázquez, the chief *charro* of Mexico's largest labor confederation. More than 100 unions have formed a new labor federation, the United Union Front in Defense of Workers and the Constitution.

Appeal to the 1917 Constitution, which guarantees labor's rights, typifies the prevalent tendency in Mexico's new mass movements: an appeal to make real "the paper triumph" of the Mexican Revolution of 1910–1917 in the name of which the

sector, this must be due to the "distortion" of market forces by government regulations. In short, if the government follows a free-market policy vis-à-vis the organized capitalist sector, then an expansion of this sector—partly engineered through provision of infrastructure (e.g., roads and utilities)—automatically leads to a reduction of poverty.

This methodology conditions WDR-90's estimate that one billion people in the third world live in poverty. Although a shocking statistic, this figure is based on a household poverty line set at \$370 in income per person (in 1985 prices), which is in turn based on "poverty lines estimated in recent studies for a number of countries with low average incomes—Bangladesh, the Arab Republic of Egypt, India, Indonesia, Kenya, Morocco, and Tanzania." (p.27) Thus, the one billion figure relies on the poverty lines of some of the poorest countries of the third world to measure the overall extent of third world poverty. This ignores WDR-90's own recognition that a poverty line must include "an amount that varies from country to country, reflecting the costs of participating in the everyday life of society." (p.26)

But more important is the purpose served by this questionable methodology, as illustrated by the following hypothetical example. Suppose you are one of three children in a household in which your father works 50 hours per week (with no holidays) in a capitalist factory and whose wage is, say, \$1300 per year (i.e., 50 cents an hour). Your mother earns \$600 per year by working as a domestic servant in a capitalist household. The total household income is thus \$1900 per year, or \$380 for each of the five household members. According to the World Bank, this household is not among the one billion poor people in the third world.

The fact that WDR-90's estimate of poverty excludes our hypothetical household suggests that the figure of one billion third world poor is grossly understated. However, this is not the proper place for developing a more accurate assessment of third world poverty. More important, for present purposes, is how WDR-90's estimate is consistent with its view that poverty among working people results from (1) inadequate income

earning opportunities in the informal sector, and/or (2) inadequate growth of the organized capitalist sector due to government "distortion" of market forces.

Let us first focus on the informal sector. What purpose does this sector serve, and why is it so large in the third world? The answer, according to the World Bank, is that the informal sector results from the survival efforts of people who are unable to find employment in the organized capitalist sector. But what is the relation between the two sectors? Here, the basic argument of WDR-90 is that once the working poor have access to basic social services, they will gain greater access to jobs in the organized capitalist sector—as this sector expands in response to infrastructure provision and the free operation of market forces.

Here we begin to see the real purpose of WDR-90's concern with the informal sector: that of maintaining a reserve army of exploitable labor for the organized capitalist sector. The World Bank recognizes that the Third World has experienced a severe economic crisis in the 1980s, and that this crisis has driven the living standards of many people in the informal sector below subsistence. Moreover, the majority of the working poor in the informal sector have little hope of obtaining jobs in the "formal sector" in the foreseeable future—for the simple reason that in most Third World countries, the informal sector comprises the majority of the population. Hence the proposals for raising incomes in the informal sector. But not too much! That would draw resources away from infrastructural and private capital investments in the organized capitalist sector. Thus, programs for increasing the income earning opportunities of the working poor must wherever possible be "cost effective." (p.3) In this connection, it is difficult to escape the conclusion that the poverty line of \$370 per person is meant to make anti-poverty efforts consistent with high rates of surplus value in the organized capitalist sector. How else can we explain the questionable calculation of this poverty line—one which conflicts with WDR-90's own observations on the proper measurement of poverty? Clearly, despite WDR-90's arguments to the contrary, some underlying contradiction

Mexico is run by the Western Hemisphere's longest ruling political party, the PRI (Institutional Revolutionary Party). The PRI's corporatist control over labor unions and peasant organizations amounts to little more than company unionism, with big payoffs for corrupt labor bosses.

Mexico's economy is a semi-industrialized one, run by capitalists who rely heavily on cheap labor for their profits. That is why Mexico's impoverished masses, far from being "marginalized" from the economy, are at its very core. They serve as a "reserve army of labor," a floating segment of easily exploited workers who move in and out of the agrarian, industrial, and service/commercial sectors of the working class.

In recent decades, Mexico's immiserated masses have become increasingly integrated with the "new international division of labor." As a result, they have become central to the workings of not just a national but an international system of capital accumulation that uses Mexican labor to build the engines of the cars most Americans drive and pick the crops most Americans eat.

Inside Mexico, the working poor are crucial. They toil in production, as in the case of a thousand foreign-owned, labor-intensive assembly plants known as *maquiladoras*. They engage in distribution, as in the case of their millions of one-room stores (*misceláneas*) selling products that are one-third of foreign origin and two-thirds delivered directly from the factory. And, of course, they form a huge market for the consumption of everything from soft drinks to furniture. Thus, in the production, distribution, and consumption of goods Mexico's expanding pool of poor workers constitute, in the still applicable words of Karl Marx, "a condition of existence of the capitalist mode of production."

Mexico's urban poor have a long history of self-organization. In the past the state usually co-opted their leaders or repressed their activities. Since 1985, however, the state, burdened by a whopping foreign debt and recognized by growing numbers of people as "having no clothes," has been less able to implement successfully its traditional carrot-and-stick approach. By mid-1990, some 25 of Mexico's 31 states had highly

marching feet of surviving seamstresses, who led protest demonstrations of thousands. No political party or guerrilla band organized them. They organized themselves, forming a labor union and leading every subsequent march of the urban poor. Within a year, the largest anti-government demonstrations since the 1968 "Olympics massacre" were taking place in Mexico City.

Thus ended Mexico's much vaunted "political stability." The 1985 earthquake and its aftermath brought down the curtain on an entire era and set the stage for a qualitatively new drama. More than ever, Mexico's ruling elites had to look over their shoulders at the charging masses, led often by women.

When president-elect Carlos Salinas de Gortari announced after the 1988 elections "the era of one-party rule is ending," he was not introducing democracy. He was soberly acknowledging that the traditional system of controlling unrest no longer worked.

The reasons lay deep in the structure of Mexico's political economy that depends so heavily on women like the seamstresses, part of a swelling subproletariat. There are more than 300,000 *maquiladoras de ropa* (garment sweatshops) in greater Mexico City, where one-fourth of Mexico's 84 million people reside. About half of Mexico's people live in one-room homes with primitive roofing, no toilets, and no potable drinking water. Their average income is 25 cents (U.S.) a day. More than half of all Mexicans suffer malnutrition and lack a regular job. The fodder consumed by Mexico's cattle contains more protein than the diet of the peasants who tend them.

This very poverty makes Mexico so attractive to foreign investors, who have more than \$25 billion soaked into the nation's economy. New U.S. investments surpass \$1 billion every year. For decades these investors have been taking out of Mexico twice the money they put in. This "suction pump" of foreign investment has been facilitated by Mexico's authoritarian-technocratic state. Top government bureaucrats have a vested interest in reaping the benefits of "modernization" for themselves and other members of Mexico's "junior-partner" bourgeoisie.

exists between raising the living standards of the poor and expansion of the "formal sector" in the third world.

Free Market Policies and Third World Poverty

The foregoing discussion suggests that WDR-90's woefully inadequate poverty line of \$370 per person is inseparable from its assertion that poverty among working people is basically limited to the informal sector of Third World economies. This methodology reflects the primacy of free market policies vis-à-vis the organized capitalist sector in the World Bank's anti-poverty strategy. The World Bank's analysis of the accumulation and debt crises experienced by third world countries in the 1980s clearly reflects this subordination of basic needs to free market adjustment and reform.

The severe economic crisis experienced in most of the periphery in the 1980s is shown by World Bank data. During the 1980-1988 period, the average annual growth rate of real per capita GDP in the countries of Sub-Saharan Africa (excluding South Africa) was -2.4 percent. For Latin America and the Caribbean, per capita GDP growth averaged -0.7 percent. Overall, per capita GDP shrunk at an average annual rate of 0.8 percent in the countries which the World Bank classifies as low income (excluding China and India). However, some countries managed to maintain output growth during the 1980s. For example, in China and India per capita GDP growth averaged 7.1 percent, while the corresponding figure for East Asia (excluding Japan) was 6.5 percent. Thus, one characteristic of the recent crisis is its *uneven development* in the periphery.

How does the World Bank explain the wide scope and uneven development of this crisis?² Their argument is that the crisis resulted from a failure of most third world countries to enact adjustments and reforms in response to adverse external shocks such as declining terms of trade and rising real interest rates. Conversely, the countries which managed to maintain output growth are said to be those which more consistently followed free-market policies. This interpretation colors WDR-90's observations on poverty trends in the 1980s. Generally, the

argument is that the regions which experienced increasing poverty in the 1980s were those (Latin America and Sub-Saharan Africa) which failed to enact necessary adjustments and "reforms," while poverty was either lowered or stabilized in the countries (e.g., East Asia) which maintained output growth by following the free-market strategy more closely. Naturally, this association of more rapid output growth with lower poverty is based on WDR-90's \$370 poverty line, the main function of which (as noted above) is to support the *a priori* notion that little poverty exists in the organized capitalist sector. Hence, the assertion that poverty was lowered in countries where formal sector output showed relative growth is a tautology, not an analytical result.

By adjustment, the World Bank means decreased growth of domestic demand engineered through a reduction of government expenditures and by a devaluation of the exchange rate so as to cheapen exports and make imports more expensive. Reform basically involves greater reliance on market forces to determine prices and the allocation of production inputs and finance. Among the particular reforms proposed are removal of domestic price controls, interest rate ceilings, and credit restrictions, as well as a lowering of tariffs and other barriers to international trade. The basic assertion here is that such reforms will increase savings (hence investment), productivity, and exports—which in turn will raise the incomes of the working poor. There are two drawbacks to this argument, both stemming from WDR-90's neglect of the question: production of *what* and *for whom*?

The first point concerns the current external debt crisis in the periphery. Once one takes this crisis into account, it becomes clear that the primary effect of adjustments and reforms is not increased investment and growth, but rather intensified exploitation of peripheral workers and increased transfers of surplus value from the periphery to the core. For example, in the years 1980–88 the countries of Latin America and the Caribbean *reduced* their private and government consumption per capita at the annual rates of 1.0 percent and 0.2 percent, respectively, while their real export growth averaged

MEXICO'S POLITICAL EARTHQUAKE

by JAMES D. COCKCROFT

Soldiers prevented relatives and volunteers from advancing past the barricades. A few desperate moans could still be heard from the rubble beyond. Lorry trucks drove through. Workers with bandanas over their mouths jumped out. Naftily dressed "gentlemen" with clipboards in their hands directed them into the ruins. There occurred a collective sigh of relief. Help had finally arrived.

Then, in pairs, the workers emerged carrying sewing machines. The well-dressed men checked off each machine "saved." The moans of crushed human beings ebbed, stopped.

As the last machine was lifted onto the last truck, a young seamstress crawled out from the ruins. Her face was streaked with blood that glistened in the streetlights. The whites of her dark eyes dilated in terror. Still on all fours, she raised a finger at the last "gentleman" opening the passenger door of the truck.

"Scum," she shrieked. "Scum bosses! You care more about your machines than human life!"

The man slammed the door and the truck roared off. During the next several days, as the last aftershocks of the 1985 earthquake faded, the nation's streets trembled with the

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sion of public and private debt. During these years, the society as a whole deteriorated, as vividly reflected in deepening poverty, the drug trade, homelessness, deterioration of education and other social services, and further destruction of the environment. The roots of these developments cannot be attributed to a single factor, such as the ballooning of the financial sector. Rather, they are all symptoms of the general degeneration of today's capitalist society under the impact of the faltering of the process of real capital accumulation. This, to use a favorite expression of the late Paul Baran, is where the dog is buried.

NOTES

1. A.J. Scott and M. Storper, *High Technology Industry and Rural Development: A Theoretical Critique and Reconstruction*, (London: University of Reading, 1986), p. 1.
2. For example, see B. Bluestone and B. Harrison, *Corporate Flight: the Causes and Consequences of Economic Dislocation*, (Washington: Progressive Alliance, 1981), p. 17.
3. *New York Times*, May 5, 1988, p. D-18.
4. Bluestone and Harrison, pp. 1-10.
5. J.M. Stern et al. eds., *Corporate Restructuring and Executive Compensation*, (Cambridge, Mass.: Ballinger, 1989).
6. *New York Times*, August 23, 1989, p. D-2.
7. *Forbes'* estimates are admittedly very rough, and of necessity are patched together from a variety of shaky sources, using arbitrary rules of thumb. For a discussion of their technique, see *Forbes 400*, October 28, 1985.
8. D. Raveuscraft and F.M. Scherer, *Mergers, Sell-Offs, and Economic Efficiency*, (Washington, D.C.: The Brookings Institution, p. 190.
9. Stern, p. 119.
10. Stern, p. 169.
11. *Mergers and Acquisitions*, July/August 1989, p. 25.
12. *New York Times*, Nov. 20, 1989, p. 7.
13. *Ibid*, p. D-1.

3.2 percent. Simultaneously, real imports *decreased* at a rate of 4.1 percent per year. Clearly, this region cannot be blamed for inadequate adjustment. But where did the export revenues go? Certainly not to domestic investment, which (in per capita terms) decreased at an average annual rate of 5.4 percent during this period. Rather, increased export revenues were used primarily to service the external debt. Indeed, the ratio of external debt payments to *total* exports for the Latin American countries rose from 34 percent in 1980 to 50 percent in 1986.³ In short, under these conditions any further "success" in lowering domestic demand and raising exports would have served mostly to line the pockets of multinational banks, core-country governments, and allied rentier interests in the periphery.

The second problem involves the basic notion that free-market policies—along with strict control of domestic demand—could *ever* help eradicate poverty in the third world. The World Bank's optimism concerning the positive effects of adjustment and reform is based largely on the ability of China, India, and East Asia to maintain output growth during the 1980s. This despite the fact that neither China nor India—even with some recent reforms—can be described as bastions of free-trade policy or domestic laissez-faire. South Korea is also enlightening in this respect. As economist Amartya Sen has argued strongly,

South Korea fostered an export-oriented growth on the secure foundations of more than a decade of intensive import substitution, based on trade restrictions, to build up an industrial base. Imports of a great many items are still prohibited or restricted. The pattern of South Korean economic expansion has been carefully planned by a powerful government. If this is a free market, then Walras' auctioneer must surely be seen as going around with a government white paper in one hand and a whip in the other. ("Development: Which Way Now?" *Economic Journal*, December 1983, p. 752)

This is not to say that these high growth areas of the periphery have really succeeded in eradicating or even reducing poverty in the 1980s. This would be true only if one

accepted WDR-90's grossly inadequate poverty line—one which places workers in the corporate sector of South Korea among the ranks of the non-poor even though the living and working conditions of many of them are a travesty by any decent standard. Nor is it true that the experience of high growth countries can be fully explained by policies opposed to the World Bank's free-market agenda. South Korea's initial period of import substitution, for example, was facilitated by large amounts of external aid obtained through its strategic location vis-à-vis the global interests of U.S. imperialism.⁴ Nonetheless, these cases do highlight a contradiction between peripheral industrialization on the one hand, and participation in the global capitalist system along the lines of free trade on the other.

Why does the World Bank cling to free-market policies in the face of strong evidence against any correlation between these policies and successful industrialization? Here, the very emphasis that WDR-90 puts on the free-market agenda indicates that the real goal of its proposed strategy is not reducing poverty, but rather a tighter integration of peripheral countries into the global capitalist economy. Indeed, we are told that external aid should be contingent on the willingness of countries to adhere to the World Bank's strategy—including adjustments and reforms. For countries not following the World Bank's strategy, "[a]iming moderate quantities of aid directly at highly vulnerable groups seems the appropriate response." (p. 4) Moreover, WDR-90 applauds recent ruling-class efforts (e.g., the Baker and Brady plans) to link the refinancing of the external debt of third world countries with the adoption of free-market policies.

Of course, if free market policies are the key to prosperity, one has to ask why, after several centuries of participation in global trade and finance, third world countries are still so underdeveloped—with burgeoning informal sectors. To put it differently, why have centuries of production for the world market left the majority of third world people with appallingly low living standards? One answer, familiar to the readers of this magazine, is that it is the global capitalist economy which itself

mentality of showing more interest in quarterly profits than in long term investment."¹² Such criticisms, however, are not likely to have an impact as long as industrial firms continue to be objects of takeovers and sell-offs—that is, as long as such firms are primarily regarded as commodities for speculative trading. Moreover, the speculative basis of U.S. capitalism brings greater risk of instability. The biggest winners in recent years have been the financial and real estate sectors—and the impending recession could exacerbate their weaknesses and bring them down along with the major industrial sectors to which they are linked.¹³

The Editors Comment

This article provides interesting light on the increasing role of finance in the U.S. economy—a development *Monthly Review* has been emphasizing since the early 1970s when debt and speculation turned sharply upward. The June 1990 Review of the Month, "Investment for What," was the most recent piece showing how significant the financial superstructure has become in propping up the economy in the 1980s.

There remain, however, questions concerning the meaning of this phenomenon. According to some, the trend to speculation is the *cause* of the stagnation of the productive sector. If only the capitalists had invested in expanding and improving manufacturing capacity instead of playing in the gambling casino, all would be well—or at least U.S. capitalism would not be in such deep trouble as it now is. What we have been trying to demonstrate over the years, on the other hand, is that the real root of the difficulty has been the onset of a stage of stagnation. In other words, the shift to financial manipulation is the *result*, not the cause, of the economic malaise.

In our view, the cause of the growing stagnation is the exhaustion of the special situation that led to the long boom after the Second World War. Capital accumulation then shifted from industry to finance because the productive economy had run out of steam. In compensation the economy began to rely more and more on such props as military and space expenditures, a growing budget deficit, and an overall expro-

production, diversification, and innovation, or even means to capture control over competitors' markets. The emphasis is now on maximizing short-term returns by stripping and selling off valuable assets and/or reselling the enterprises for a quick turnover profit.⁸ This tendency has intensified in the past decade. An important mechanism in the speculative turnover of ownership during the 1980s was the leveraged buyout, whose volume jumped from \$1 billion in 1980 to \$59 billion in 1988. But leveraged buyouts are only part of the picture: non-leveraged buyouts increased from \$30 billion to \$257 billion in the same period.

The buyout environment has had a significant impact on managerial strategy, which is increasingly directed toward short-run gains to satisfy stockholders. Managers argue that, "... investors are short-sighted, compelling management to sacrifice long-term investment and maximize current earnings—or else face the threat of takeover."⁹ As one author puts it:

... there is intense pressure for current earnings. So the message is: Don't get caught with long-term investments. And leverage the hell out of yourself. Do all the things we used to consider bad management.¹⁰

Analysts have noted that those companies that have been caught up in the merger scramble have cut spending on research and development: the National Science Foundation reported that the firms involved in mergers and acquisition cut their research and development expenditures by about 5 percent between 1986 and 1987, whereas those not involved increased theirs by about 5 percent over the same period.¹¹

Conclusion

The data from the Forbes 400 suggest that speculator capitalists have become increasingly dominant in the U.S. ruling class, displacing industrial and petroleum capitalists. The ascendancy of speculative capital and its adverse effects for the U.S. in world markets have been noted by Japanese leaders who have criticized American capitalists for their "... low level of investment in plant and equipment and their short-termist

reproduces underdevelopment and poverty in the third world. An increase in the living standards of the masses would require their needs to take the form of effective demand, and an orientation of investment and production toward *that* demand. But such a convergence of domestic resource use, domestic demand, and domestic needs is impossible if production is geared toward the world market under the control of core-capital and its domestic allies.⁵ For under these conditions, the incomes of the masses of workers and peasants are viewed solely as a cost of production, to be kept at the bare minimum. Hence a lessening of poverty via growth of a domestic mass market is precluded from the start. Moreover, the extreme susceptibility of peripheral nations to external shocks itself reflects the fact that their economies are driven and shaped by the needs of core capital rather than by growth of a domestic mass market for consumer goods which might stimulate the development of local capital goods production. The failure of the World Bank to address these basic issues indicates that its real goal is not "eradication of poverty from the world," (p. 7) but rather maintaining the basic structure of imperialist underdevelopment in the periphery.

The Contradictions of World Bank Policy

WDR-90's strategy might still be an advance over previous ruling-class proposals if it could be shown that free-market policies are at least consistent with a reduction of poverty as measured by the World Bank. Unfortunately, even this is not the case. For even if we suppose that adjustment of domestic demand (along with various deregulation measures) does lead to increased investment and exports, this by definition implies a reduction of consumption. Meanwhile, the increased pressure of international competition resulting from trade liberalization places further downward pressure on wages—which helps to ensure that the burden of reduced consumption is shouldered by the working class. In this context, relaxation of credit controls is meant to facilitate the movement of capital into sectors able to produce along the lines of international "comparative advantage"—i.e., a deepening of the basic structure

of underdevelopment which reproduces mass poverty in the third world.

WDR-90 denies that free-market policies inherently conflict with anti-poverty efforts. It is argued that fiscal and financial stringency can be maintained alongside: (1) "well-targeted" and "cost effective" provision of infrastructure, education, etc., to the working poor, and (2) maintenance of a safety net of basic social services for the unemployed. Of course, the World Bank is aware that such a program may conflict with the interests of the non-poor, but suggests that this conflict can be softened if anti-poverty policies are limited to "tilting the distribution of new investment in favor of the poor" rather than "reshuffling the stock of existing assets" (e.g., through land reforms). (p. 53) In other words, policies to help the poor are okay as long as they don't upset the existing power structure in third world countries. As to how new investment is supposed to be tilted in favor of the poor without confronting the class structure associated with underdevelopment and poverty, one can only guess.

Peripheral countries normally undertake adjustment of domestic demand and free-market reforms as part of IMF stabilization programs. These programs are a prerequisite for rescheduling external debt payments and/or access to new loans from core-country banks and agencies like the World Bank. It is well known that the primary effect of these stabilization packages is to reduce the living standards of the working poor and the unemployed (hence the mass unrest often associated with these programs). Indeed, this is in the nature of the case, since the big core-country banks (and the core-country investors that finance the World Bank) are not interested in reducing poverty, but rather in maintaining and increasing their profits. And their profits depend on continued extraction of surplus from the peripheral work-force—which presumes a continuation of mass poverty in the periphery. Despite this, WDR-90 asks us to believe that measures such as "a temporary 'pause' in investment [and] for increased foreign capital flows . . . can soften the impact of adjustment" on the poor. (p. 106) But how are investments for the poor consistent with a pause in

or. There is scant evidence to justify the claim that the U.S. has shifted from being an industrial society to being an information society. The proportion of top capitalists with their main wealth in the high-tech sector, which was only 3 percent in 1983, was no more than 4 percent in 1988. The spread between the paper economy and high-tech actually widened from 22 percentage points in 1983 to 34 percentage points in 1988. Clearly, the very wealthy who have their money in high tech operate in a milieu dominated by more numerous and powerful colleagues in the paper economy.

The decline of the fortunes of the oil and gas plutocracy during the 1980s is also striking. In 1983 they made up 16 percent of the very wealthy, but by 1988 only 8 percent. The collapse of oil prices, the over-indebtedness of the speculative petroleum sector, and increased takeover activity played a major role in thinning the ranks of the oil barons.

Mergers and Concentration

The ascendancy of finance and real estate capital and the relative decline of industrial capital in the last decade coincide with growing concentration and centralization of capital—the so-called merger madness. Although the intensification of merger activity has been going on for some time, it has taken a dramatic new form in the hands of speculator capitalists. Buyouts are no longer long-term investments, sites for new

*Distribution of the Primary Sources of Wealth
Of the Forbes 400: 1983 and 1988*

	1983	1988
Finance and real estate	25	38
High tech	3	4
Oil and gas	16	8
Mass media	16	18
Manufacturing	26	19
Retail and other	14	14
Total	100	100

SOURCE: *Forbes 400*, October 21, 1988.

expected-return mentality is paramount. The total number of junk bonds outstanding rose from about 1 million in 1977 to over 45 million in 1986.⁵ The growth of the paper economy creates an increasingly volatile climate punctuated by wild fluctuations of the stock market and burgeoning corporate indebtedness.⁶

This restructuring of U.S. capitalism has had major effects of the internal structure of society, its economic stability, and its international competitive position. In this article we examine these structural changes as they are mirrored in the patterns of wealth holding of the richest Americans during the past decade. In particular, we examine the extent to which the wealth of the very rich has shifted away from industry and toward such speculative forms as finance and real estate.

The Forbes 400

The basis for many of the claims made in this article is a compilation of data on the major industrial sources of wealth of the 400 richest Americans, the so-called "Forbes 400." These data are now available annually for the period from 1982-88, long enough to suggest some important trends. Since the data for 1982 are influenced by the severe recession of that year and contain a number of anomalies that may stem from the newness of the project,⁷ the table below compares data from 1983 with those of 1988.

A strikingly large percentage of the Forbes 400, 38 percent, had the major sources of their wealth in finance and real estate in 1988, followed at a distance by manufacturing (19 percent) and the mass media (18 percent). Equally striking is the growth during the 80s of the dominance of the "paper economy" (finance and real estate) over manufacturing. In 1983 only 25 percent of the very wealthy had their assets in the paper economy, about the same as in manufacturing. Between 1983 and 1988, the percentage whose wealth was concentrated in the paper economy increased by half, while the percentage concentrated in manufacturing declined noticeably. The route to the top of the economy has clearly shifted from productive to unproductive effort and, by implication, to speculative endeavor.

investment? And since when is the purpose of core capital's investments in the third world to reduce poverty rather than to maximize profits?⁶

When push comes to shove, WDR-90 tells us not only that anti-poverty efforts should as far as possible avoid direct confrontation with the interests of the non-poor, but that it is "essential to convince the private sector that the [free-market] policy stance will be maintained." (p. 12) Anyone familiar with capitalist psychology knows that one of the best ways to convince the private sector that a third world country is a hospitable environment for profitable accumulation is for the government to keep social spending to the bare minimum (military spending is, of course, a different matter). Moreover, WDR-90 itself argues that if transfers for the poor are enacted alongside free-market policies, "the budget deficit will be higher than otherwise; this will be justified only if effective action is taken on other aspects of public finance to ensure that the deficit is consistent with both short- and long-run objectives for inflation, investment, and savings." (p. 106) Presumably such effective action to sustain social spending will not be justified if it involves—contrary to World Bank policy—a direct confrontation with the non-poor or if it contradicts the need to pamper the "private sector," i.e., core capital and its domestic allies.

Ultimately, then, the World Bank subordinates even its grossly inadequate anti-poverty proposals to the prime function of its two-part strategy: the reproduction and deepening of the current structure of underdevelopment and capitalist power in the periphery. If this is the best that capitalism has to offer in the era of its supposed final triumph over socialism, then we can be sure that this triumph will continue to be punctuated, and perhaps even reversed, by severe crises and explosions of class struggle in the third world.

NOTES

1. WDR-90 appears to use two concepts of informal sector which are not always clearly distinguished. In the first, this sector comprises all enterprises (including capitalist ones) which operate outside the bounds of taxes and government regulations. The second definition of informal sector is essentially identical to the peasant and small (owner-operated) business sector in urban and rural areas. To avoid confusion the second definition is here utilized throughout.
2. The present discussion also draws from *World Development Report 1989* (New York: Oxford University Press), which concentrates on the free market aspect of the World Bank's strategy.
3. For the entire third world, the ratio of debt payments to total exports rose from 13 percent to 25 percent during the 1980-1986 period. Mike Hall, "The International Debt Crisis: Recent Developments," *Capital & Class*, No. 35 (Summer 1988) pp. 12-13.
4. The experience of Taiwan (another "high growth" country) is similar in this respect. Stephen Haggard and Tun-jen Cheng, "State and Foreign Capital in the East Asian NICs," in *The Political Economy of the New Asian Industrialism*, ed. F. Deyo, (Ithaca: Cornell University Press, 1987).
5. C.Y. Thomas, *Dependence and Transformation* (New York: Monthly Review Press, 1974) provides a detailed analysis of this point.
6. In a detailed study of 18 Latin American countries over the 1965-1981 period, Manuel Pastor found that IMF stabilization programs had a negative effect on the share of wages and consumption in total income. This upward redistribution of income was associated with increased capital inflows. *The International Monetary Fund and Latin America: Economic Stabilization and Class Conflict* (Boulder, Colo.: Westview Press, 1987), Chapter 4.

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THE CHANGING WEALTH OF THE U.S. RULING CLASS

by JAMES PETRAS AND CHRISTIAN DAVENPORT

U.S. capitalism has been evolving in quite fundamental ways during the past twenty years. One school of analysis has detected the emergence of a post-industrial, high-technology information economy, while another has emphasized the ascendancy of finance, real estate, and speculative capital.¹ Several studies have pointed to the declining role of industrial capital, which no longer is the foundation upon which the economy stands.² By the 1980s, the U.S. had lost its place as the leading maker of machine tools. It had become a net importer of manufactures and was rapidly losing its dominant position in advanced computers.³ The ramifications of this transformation were manifold. Industrial employment for working-class youth dried up, forcing many to choose between minimum-wage service industries and the "underground economy," i.e., the drug trade and other such sources of illicit income.⁴ Those writers who have argued the ascendancy of speculative and finance capital have also noted that a tolerably educated, housed, and healthy labor force is no longer necessary for capital. The reduction in state spending for education, housing, and health care is therefore entirely compatible with this new phase of capitalist development.

The growth of the "junk bond" market symbolizes the ascendancy of speculative capital, as the high-risk, high-

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